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MAY 2 1974

Mr. M. L. Blaylock
Acting Regional Administrator
General Services Administration
GSA Center
Auburn, Washington 98002

Dear Mr. Blaylock:

We recently completed a survey of the procurement of automobile and truck parts by Federal agencies. The purpose of this letter is to bring to your attention an apparent opportunity for the Federal Supply Service to help agencies achieve savings through the consolidation of procurements.

We found that Federal agencies were purchasing repair parts from a multitude of suppliers under various methods of procurement. This resulted in substantially varying prices for the parts. Some procuring activities were attempting to consolidate their requirements in order to achieve more favorable discounts, while others were purchasing on an item-by-item basis. In no cases, however, did we find that activities were consolidating their volumes with other activities to negotiate better prices. As a result of this fragmented procurement, local agencies were not taking advantage of the potential discounts available through volume procurement.

We examined the prices paid for automotive parts by two Forest Service garages, the Atomic Energy Commission (AEC), Richland, Washington, and five agencies in the Seattle/Tacoma area maintaining the largest vehicle repair facilities. The activities included Fort Lewis, General Services Administration (GSA) Motor Pool, Seattle District Postal Service, McChord Air Force Base (AFB), and Puget Sound Naval Shipyard (PSNS). At each location, we compared prices of replacement parts for general-purpose vehicles manufactured by Ford, Chrysler, General Motors, American Motors, and International Harvester.

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Automotive replacement parts can be classified into two categories--original equipment manufacturer's (OEM) parts and alternate parts. OEM parts are sold by the vehicle manufacturer and its dealers. Alternate parts are sold under different brand names and price lists than those identified with the vehicle manufacturer. Alternate parts are marketed primarily through auto parts stores rather than vehicle dealers. Examples of alternate parts brand names include Wagner, Monroe, Maremont, Echlin, Holley, Carter, and Borg Warner.

We compared the prices paid for OEM parts with the prices that would have been paid had the part been purchased through nonmandatory Federal Supply Schedules. To provide a common basis for comparison, we related the prices paid for alternate parts to the prices available on the Federal Supply Schedule for an equivalent OEM part. An index system was developed whereby the Federal Supply Schedule price was set at a base of 100.

The following table compares the average prices paid by the activities visited.

<u>Agency</u>	<u>Price indexes</u>	
	<u>OEM parts</u>	<u>Alternate parts</u>
Forest Service (Note a)	132	128
PSNS	118	114
Fort Lewis	112	91
GSA Motor Pool	107	91
Atomic Energy Commission (Note b)	101	96
McChord AFB	(Note c)	(Note c)
Postal Service	103	63

^aAverage for two National Forest offices visited.

^bAtlantic Richfield Hanford Company (AEC cost-type contractor).

^cMcChord AFB used a contractor-operated parts store (COPARS) method of parts supply. Since the contractor bid relatively low on OEM parts and high on alternate parts, separate indexes for OEM and alternate parts were not comparable. The combined index was 95.

This table shows that AEC and the Postal Service obtained the lowest prices for OEM parts and that the Postal Service was charged the lowest prices for alternate parts. We attribute these variances primarily to the agencies' selections of sources and methods of procurement.

The following examples illustrate the wide variances in prices noted during our survey.

PSNS generally purchased its alternate parts through blanket purchase agreements. PSNS would have saved 45 percent if these parts could have been purchased under the Postal Service's local term contract. As an example, PSNS purchased a Carter carburetor for a Dodge truck from an alternate parts supplier, who was not required to deliver, at a cost of \$31.08. This same part was available through the Postal Service's local contract at a cost of \$23.38 delivered to the vehicle maintenance facility.

A Forest Service garage normally purchased OEM parts from a parts store under a blanket purchase agreement. The supplier generally purchased the parts from OEM dealers and frequently resold them to the Forest Service at list prices. For example, in November 1973, the Forest Service garage purchased for stock two Chevrolet wheels from the parts store at a total list price of \$70.70. Had this purchase been made from the General Motors warehouse, the total price would have been \$31.18, a difference of \$39.52.

OEM PARTS

The following table compares the OEM price indexes for each activity and the price indexes the Federal Supply Service, Auburn, Washington, achieved in procurements for the Army in Asia.

<u>Procurement activity</u>	<u>Price indexes for OEM parts</u>				
	<u>General Motors</u>	<u>Ford</u>	<u>Chrysler</u>	<u>American Motors</u>	<u>International Harvester</u>
Forest Service	179	-	140	-	116
PSNS	132	96	116	139	100
Fort Lewis	138	97	118	100	100
GSA Motor Pool	127	100	114	100	100
AEC	100	99	106	100	98
Postal Service	130	90	113	100	100
Federal Supply Service	100	71	87	100	90

The lowest prices for General Motors parts were obtained by using the Federal Supply Schedule contractor as the source of supply. Also, most agencies were able to obtain Federal Supply Schedule prices for American Motors parts from either the contractor at Portland, Oregon, or American Motors dealers. The lowest prices for Ford, Chrysler, and International Harvester parts were attained by using term contracts as the principal method of purchase. Both the Postal Service and Federal Supply Service used this method of procurement. AEC used purchase orders while the other four agencies used blanket purchase agreements.

Although substantial savings could be achieved by ordering General Motors parts from the Federal Supply Schedule contractor, most agencies were reluctant to use this source of supply because of the relatively longer delivery times involved. The principal contractor supply point is located at Beaverton, Oregon.

ALTERNATE PARTS

As shown in the table at page 2, price indexes for alternate parts ranged from a high of 128 for the Forest Service to a low of 63 for the Postal Service. Average prices paid by five agencies visited exceeded Postal Service prices by from 44 to 103 percent. While these five agencies use blanket purchase agreements or individual purchase orders (AEC) as their predominant method of procurement, the Postal Service uses term contracts.

OPPORTUNITY FOR SAVINGS

We believe the Government could achieve substantial savings through the use of competitively awarded term contracts to meet the combined auto parts needs of agencies at field locations.

While centralized purchases or procurements in large quantities should result in the lowest possible prices, field installations must consider both price and delivery time as major factors in determining the best method of procurement. Prompt delivery precludes the high cost of maintaining large inventories.

Blanket purchase agreements with local concerns are an effective means of securing parts promptly. However, as demonstrated previously, they are not an effective means for attaining low prices.

Regulations covering the use of blanket purchase agreements do not encourage competition, apparently in order to avoid the cost of securing quotations for small orders (under \$250). For example, the Armed Services Procurement Regulations state:

"3-604.1 Purchases Not in Excess of \$250. Small purchases not exceeding \$250 may be accomplished without securing competitive quotations if the prices are considered to be reasonable. Such purchases shall be distributed equitably among qualified suppliers. When practical, a quotation will be solicited from other than the previous supplier prior to placing a repeat order. The administrative cost of verifying the reasonableness of the price of purchases not in excess of \$250 may more than offset potential savings in detecting instances of overpricing; therefore, action to verify the reasonableness of the price need be taken only when the buyer or contracting officer suspects that, or has information to indicate that, the price may not be reasonable, e g., comparison to previous price paid, personal knowledge of the item involved "

This regulation seems to ignore the fact that individual orders under \$250, on a day-to-day basis, when considered over a period of time (a year) will amount to several thousand dollars and that prices can be established in advance so that the cost of obtaining competition and establishing prices need be incurred only once a year rather than every day or every week.

Notwithstanding the apparent shortcomings in the cited regulation, Federal Procurement Regulations provide a means of satisfying both price and prompt delivery objectives by encouraging cooperative use by one agency of the local term contracts of another agency. The regulations also state

"In furtherance of the economical and other advantages to be gained from cross utilization of local term contracts, wherever possible the requirements of several offices in the same community should be combined and included in a single contract."

The Report of The Commission on Government Procurement endorses the use of indefinite delivery/quantity type term contracts as an effective means of obtaining price advantages through consolidated purchasing without incurring warehousing costs and simplifying ordering by eliminating individual purchases.

Agencies we visited had not established multiple-use local term contracts to meet their combined needs for commercial vehicle parts.

We believe that neither the blanket purchase agreements nor the nonmandatory GSA Federal Supply Schedule is the best method of procurement

for all purchases by field installations, because they do not provide optimum prices. Further, with respect to the Federal Supply Schedules, delivery periods are frequently unacceptable to the agencies

The table on page 2 shows that the Postal Service purchased alternate parts at significantly lower prices than the other agencies visited, and the table on page 3 shows that the Federal Supply Service purchased OEM parts (Ford, Chrysler, and International Harvester) at substantially lower prices. We believe that local term contracts consolidating the needs for alternate parts at the local level would result in prices at least as low as those obtained by the Seattle District Postal Service. While OEM price indexes equivalent to those experienced by the Federal Supply Service most likely could not be achieved for multiple-use term contracts in local areas (because the volume would be less than under the Federal Supply Service term contracts), we believe there are opportunities for lower prices. For example, the following price indexes appear attainable. General Motors--115, Ford--80, Chrysler--95, IHC--95.

Since General Motors parts can be purchased at substantially lower prices under the Federal Supply Schedule, we have encouraged agencies to use it whenever feasible. However, because of delivery problems, it appears agencies will continue to purchase a major share of General Motors parts needs locally. Accordingly, local term contracts should also result in savings for the purchase of General Motors parts.

As a result of our survey, agencies are seeking ways to obtain lower prices for automotive parts, including the use of term contracts. Because Region 10 is assigned contracting responsibility for the national Federal Supply Schedule and has extensive experience in the procurement of vehicle parts we believe your office is in a unique position to take a lead role in negotiating multiple use term contracts with local suppliers. Several agency officials told us that they would be receptive to the use of such local term contracts

RECOMMENDATION

To reduce the cost of automotive parts purchased locally by Federal agencies, we recommend that you consider, in consultation with other agencies, the feasibility of negotiating multiple use term contracts with local suppliers

We would like to thank you and your staff for the excellent cooperation and assistance your staff has provided to us during this survey. Your comments and advice on the foregoing matters will be appreciated.

Sincerely yours,

JOSEPH W KEGEL

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Regional Manager

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